



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

December 3, 2003

### **H.R. 3054** **District of Columbia Military Retirement Equity Act of 2003**

*As cleared by the Congress on November 11, 2003,  
and signed by the President on November 22, 2003*

#### **SUMMARY**

H.R. 3054, enacted as Public Law 108-133, will permit participants in the pension system created by the District of Columbia Policemen and Fireman's Retirement and Disability Act to have military service credits included in retirement benefit calculations by allowing them to purchase such credits. Pension liabilities for participants in this pension system, which includes D.C. police officers and firefighters as well as members of the U.S. Park Police and uniformed Secret Service, were assumed by the federal government in 1997. In order to have military service credits included in their benefit calculations, participants will have to purchase the credits. Prior law did not provide a way for participants in this pension system to purchase military service credits.

CBO estimates that Public Law 108-133 will increase revenues to the federal government by \$1 million in 2004, \$1 million over the 2004-2008 period, and \$2 million over the 2004-2013 period. We also estimate that the act will increase direct spending on retirement benefits by \$1 million in 2004, \$8 million during the 2004-2008 period, and \$28 million over the 2004-2013 period.

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary impact of Public Law 108-133 is shown in the following table. The costs of this legislation fall within budget function 600 (income security).

	By Fiscal Year, in Millions of Dollars									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Changes in outlays	1	1	2	2	2	3	3	4	5	5
Changes in receipts	1	0	0	0	0	0	0	0	0	0

## **BASIS OF ESTIMATE**

Under the Balanced Budget Act of 1997, the federal government assumed responsibility for all pension liabilities accrued under the District of Columbia's pension system. This system includes coverage of D.C. police officers and firefighters, as well as members of the U.S. Park Police and Uniformed Division of the U.S. Secret Service. The federal government pays all benefits accrued under the pension system before June 30, 1997, and administers all benefits payments.

After assuming responsibility for the pension system, officials at the Department of the Treasury discovered that the D.C. pension system had been incorrectly including post-1956 military service credits in calculations of retiree benefits. Federal law requires that any post-1956 military service must be purchased to be considered creditable for retirement purposes. If the military service credits are not purchased, the retiree's annuity should be reduced once reaching age 65. Retirees covered under D.C.'s Policemen and Fireman's Retirement and Disability Act had never been permitted to purchase post-1956 military service credits, although those credits had been included in calculations of their benefits. As such, about 250 retirees had their benefits recalculated and reduced starting in June 2003.

Public Law 108-133 allows all current and future retirees covered by the Policemen and Fireman's Retirement and Disability Act to purchase any applicable military service credits and have those credits included in calculations of their retirement benefits. This will increase federal revenues from the purchase of the service credits. By allowing those credits to be used in benefit calculations, the act will also increase federal outlays for benefits payments above what they would have been under prior law.

## **Revenues**

Under Public Law 108-133, to have military service credits included in benefit calculations, covered retirees will be required to pay 7 percent of the salary they received while performing military service for each period of post-1956 military service. Current retirees have until October 1, 2004, to make these payments without interest or October 1, 2006, to

make these payments with interest. Current workers will be allowed to make the payments upon retirement without interest.

According to information provided by the Treasury Department, there are currently about 4,000 retirees who receive benefits under the Policemen and Fireman's Retirement and Disability Act. Of those, roughly 250 retirees are at least 65 years old and have performed military service after 1956. In addition, there are about 1,100 covered retirees who are younger than 65 years old and have on average about three years of post-1956 military service. Finally, there are approximately 4,100 active workers covered by this pension plan, of whom between 40 percent to 45 percent performed military service after 1956. Given that the average annual increase in benefits is projected to be at least twice as large as the one-time payment required to purchase military service credits, CBO assumes that virtually all current and future retirees will elect to purchase the credits. Based on assumptions about average pay for the individual periods of such service, and assuming that about 100 workers retire each year, CBO estimates that the purchase of military service credits will increase federal revenues by \$1 million in 2004, \$1 million over the 2004-2008 period, and \$2 million over the 2004-2013 period.

### **Direct Spending**

In order to comply with prior law, benefits for current retirees over the age of 65 covered by the D.C. pension system have been recalculated and reduced so as not to include any post-1956 military service credits. Furthermore, those retirees who are younger than 65, as well as future retirees, will not be able to have post-1956 military service credits included in their benefit calculations when they reach age 65. By allowing military service credits to be included in calculations of retirement benefits, the act will increase federal outlays for retirement benefits above what they would have been under prior law.

Of the approximately 4,000 current retirees, roughly 1,350 have performed post-1956 military service. Moreover, there are another 4,100 active workers who participate in this pension system. Assuming an average military service credit of between two and three years, the purchase of credits for this service would increase retirement benefits by between 8 percent and 12 percent. CBO estimates this will increase the average annual benefit provided to retirees by between \$3,400 and \$3,700 in 2004. In total, CBO estimates Public Law 108-133 will increase retirement benefits payable by the federal government by \$1 million in 2004, \$8 million over the 2004-2008 period, and \$28 million over the 2004-2013 period.

## **PREVIOUS CBO ESTIMATE**

On October 9, 2003, CBO transmitted a cost estimate for H.R. 3054 as ordered reported by the House Committee on Government Reform on September 25, 2003. The two versions of the legislation are identical, as are our estimates.

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